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OFFICE OF INTERNATIONAL  
CORPORATE FINANCE

# Interim Report **SUPPL**

Six months ended June 30, 2006

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Business Review

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FINANCIAL

*Jw 9/6*

Merlin Gerin  
Square D  
Telemecanique

**Schneider**  
 **Electric**  
*Building a New Electric World*

## Consolidated Statement of Income

(in millions of euros except for earnings per share)

		First-half 2006	First-half 2005	Full-year 2005
<b>Revenue</b>	(note 12)	<b>6,586.2</b>	<b>5,399.3</b>	<b>11,678.8</b>
Cost of sales		(3,832.4)	(3,211.5)	(6,923.8)
<b>Gross profit</b>		<b>2,753.8</b>	<b>2,187.8</b>	<b>4,755.0</b>
Research and development expenses		(154.0)	(130.3)	(273.7)
Selling, general and administrative expenses		(1,586.6)	(1,342.1)	(2,812.8)
Other operating income and expenses	(note 13)	(69.0)	(39.6)	(103.2)
<b>Operating profit</b>		<b>944.2</b>	<b>675.8</b>	<b>1,565.3</b>
Finance costs, net		(53.9)	(43.5)	(103.1)
Other financial income and expenses		(4.4)	(7.3)	(1.5)
<b>Finance costs and other financial income and expense, net</b>	(note 14)	<b>(58.3)</b>	<b>(50.8)</b>	<b>(104.6)</b>
Share of profit/(losses) of associates		0.0	(2.5)	(3.6)
<b>Profit before tax</b>		<b>885.9</b>	<b>622.5</b>	<b>1,457.1</b>
Income tax expense	(note 15)	(263.9)	(195.2)	(427.5)
<b>Profit of continuing operations</b>		<b>622.0</b>	<b>427.3</b>	<b>1,029.5</b>
Discontinued operations		0.0	0.0	0.0
<b>Profit for the period</b>		<b>622.0</b>	<b>427.3</b>	<b>1,029.5</b>
- Attributable to equity holders of the parent		603.7	413.1	994.3
- Attributable to minority interests		18.3	14.2	35.2
Basic earnings per share (in euros)		2.75	1.90	4.56
Diluted earnings per share (in euros)		2.72	1.89	4.54

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated Statement of Cash Flows

(in millions of euros)	First-half 2006	First-half 2005	Full-year 2005	
<b>I - Cash flows from operating activities:</b>				
Profit attributable to equity holders of the parent	603.7	413.1	994.3	
Minority interests	18.3	14.2	35.2	
Share of (profit)/losses of associates, net of dividends received	0.0	2.5	2.8	
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation of property, plant and equipment	135.8	138.6	279.3	
Amortization of intangible assets other than goodwill	56.0	43.0	88.8	
Losses on non-current assets	30.7	14.0	20.7	
Increase/(decrease) in provisions	31.3	(43.6)	22.5	
Change in deferred taxes	44.7	30.1	97.0	
(Gains)/losses on disposals of assets	0.4	(5.8)	(0.7)	
Other	2.8	22.6	8.2	
<b>Net cash provided by operating activities before changes in operating assets and liabilities</b>	<b>923.7</b>	<b>628.7</b>	<b>1,548.1</b>	
(Increase)/decrease in accounts receivable	(269.5)	(225.6)	(185.0)	
(Increase)/decrease in inventories and work in process	(208.3)	(93.2)	(85.2)	
Increase/(decrease) in accounts payable	91.6	89.3	165.6	
Change in other current assets and liabilities	0.9	(47.0)	(118.8)	
<b>Change in working capital requirement</b>	<b>(385.3)</b>	<b>(276.5)</b>	<b>(223.4)</b>	
<b>Total I</b>	<b>538.4</b>	<b>352.2</b>	<b>1,324.7</b>	
<b>II - Cash flows from investing activities:</b>				
Purchases of property, plant and equipment	(169.1)	(162.9)	(308.1)	
Proceeds from disposals of property, plant and equipment	26.0	19.6	45.2	
Purchases of intangible assets	(111.8)	(80.5)	(213.7)	
Proceeds from disposals of intangible assets	-	-	0.6	
(Increase)/decrease in advances to fixed assets suppliers	5.6	-	-	
<b>Net cash used by investment in operating assets</b>	<b>(249.3)</b>	<b>(223.8)</b>	<b>(476.0)</b>	
Purchases of financial investments - net (note 2)	(559.4)	(214.7)	(1,267.3)	
Purchases of other long-term investments	180.7	42.9	(20.7)	
Increase in long-term pension assets	(3.3)	(31.4)	(48.1)	
<b>Sub-total</b>	<b>(382.0)</b>	<b>(203.2)</b>	<b>(1,336.1)</b>	
<b>Total II</b>	<b>(631.3)</b>	<b>(427.0)</b>	<b>(1,812.1)</b>	
<b>III - Cash flows from financing activities:</b>				
Issuance of long-term debt	-	-	1,490.9	
Repayment of long-term debt	(72.2)	(6.5)	(70.4)	
Sale/(purchase) of treasury shares	53.4	(102.3)	(73.2)	
Increase/(reduction) in other financial debt	136.9	370.0	(76.1)	
Issuance of shares	30.0	0.6	22.4	
Dividends paid: Schneider Electric SA	(493.0)	(395.2)	(395.4)	
Minority interests	(12.7)	(17.1)	(22.9)	
<b>Total III</b>	<b>(357.6)</b>	<b>(150.5)</b>	<b>875.3</b>	
<b>IV - Net effect of exchange rate:</b>	<b>Total IV</b>	<b>30.7</b>	<b>(19.4)</b>	<b>(31.1)</b>
<b>Net increase/(decrease) in cash and cash equivalents: I + II + III + IV</b>	<b>(419.8)</b>	<b>(244.7)</b>	<b>356.8</b>	
Cash and cash equivalents at beginning of period	1,303.3	946.5	946.5	
Increase/(decrease) in cash and cash equivalents	(419.8)	(244.7)	356.8	
<b>Cash and cash equivalents at end of period</b>	<i>note 9</i> <b>883.5</b>	<b>701.8</b>	<b>1,303.3</b>	

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Balance Sheet

(in millions of euros)

<b>ASSETS</b>		<b>June 30, 2006</b>	<b>Dec. 31, 2005</b>
<b>Non-current assets</b>			
Goodwill, net	(note 3)	6,018.6	5,878.8
Intangible assets, net	(note 4)	1,317.6	1,299.1
Property, plant and equipment, net	(note 4)	1,577.1	1,600.6
Assets held for sale	(note 4)	10.5	6.8
Total tangible and intangible assets		2,905.2	2,906.5
Investments in associates		5.8	48.2
Available-for-sale financial assets	(note 5)	267.3	315.4
Other non-current financial assets	(note 5)	96.8	281.4
Total non-current financial assets		364.1	596.8
Deferred tax assets		762.4	795.0
<b>Total non-current assets</b>		<b>10,056.1</b>	<b>10,225.3</b>
<b>Current assets</b>			
Inventories and work in process		1,825.8	1,636.6
Trade accounts receivable		2,827.3	2,586.7
Other receivables and prepaid expenses		1,028.8	783.0
Current financial assets		48.9	
Cash and cash equivalents	(note 9)	955.3	1,383.2
<b>Total current assets</b>		<b>6,686.1</b>	<b>6,389.5</b>
<b>Total assets</b>		<b>16,742.2</b>	<b>16,614.8</b>

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Balance Sheet

(in millions of euros)

<b>LIABILITIES</b>		<b>June 30, 2006</b>	<b>Dec. 31, 2005</b>
<b>Equity</b>	(note 6)		
Share capital		1,817.3	1,813.0
Share premium account		4,094.7	4,069.0
Retained earnings and other reserves		2,341.1	2,160.8
Translation reserve		(104.6)	200.8
<b>Equity attributable to equity holders of the parent</b>		<b>8,148.5</b>	<b>8,243.6</b>
Minority interests		91.7	93.9
<b>Total equity</b>		<b>8,240.2</b>	<b>8,337.5</b>
<b>Long-term provisions</b>			
Provisions for pensions and other post-employment benefits	(note 7)	1,175.1	1,200.4
Provisions for contingencies	(note 8)	212.4	210.0
<b>Total long-term provisions</b>		<b>1,387.5</b>	<b>1,410.4</b>
<b>Non-current liabilities</b>			
Bonds	(note 9)	2,691.1	2,691.1
Other long-term debt	(note 9)	94.0	63.6
<b>Total non-current financial liabilities</b>		<b>2,785.1</b>	<b>2,754.7</b>
Deferred tax liabilities		280.8	259.4
Other non-current liabilities	(note 11)	78.0	178.8
<b>Total non-current liabilities</b>		<b>4,531.4</b>	<b>4,603.3</b>
<b>Current liabilities</b>			
Trade accounts payable		1,813.2	1,710.8
Accrued taxes and payroll costs		1,076.9	1,093.1
Short-term provisions	(note 8)	283.7	276.7
Other current liabilities		450.7	340.5
Short-term debt	(note 9)	346.1	252.9
<b>Total current liabilities</b>		<b>3,970.6</b>	<b>3,674.0</b>
<b>Total equity and liabilities</b>		<b>16,742.2</b>	<b>16,614.8</b>

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Statement of Changes in Equity and Minority Interests

(in millions of euros except for number of shares)

	Number of shares (thousands)	Share capital	Share premium account	Retained earnings	Own share reserves	Other reserves	Translation reserve	Equity attributable to equity holders of the parent	Minority interests	Total
January 1, 2005 *	226,194.2	1,809.6	4,049.9	1,793.6	(286.7)	64.2	(84.3)	7,346.3	76.2	7,422.5
Profit for the year				413.1				413.1	14.3	427.4
Valuation gains/(losses) taken to equity						31.9		31.9		31.9
Exchange differences on translating foreign operations							205.2	205.2	6.8	212.0
Total recognized income and expense for the period (comprehensive income)				413.1		31.9	205.2	650.2	21.1	671.3
Exercise of stock options	12.5	0.1	0.5					0.6		0.6
Dividends				(395.4)				(395.4)	(17.1)	(412.5)
Change in treasury stock					(102.3)			(102.3)		(102.3)
Stock options					8.2			8.2		8.2
Other				(2.3)				(2.3)	(2.5)	(4.8)
June 30, 2005	226,206.7	1,809.7	4,050.4	1,809.0	(380.8)	96.1	120.9	7,505.3	77.7	7,583.0
January 1, 2006	226,619.2	1,813.0	4,069.0	2,399.6	(338.6)	99.8	200.8	8,243.6	93.9	8,337.5
Profit for the period				603.7				603.7	18.3	622.0
Valuation gains/(losses) taken to equity (see note 6)						(3.4)		(3.4)		(3.4)
Exchange differences on translating foreign operations							(305.4)	(305.4)	(7.9)	(313.3)
Total recognized income and expense for the period (comprehensive income)				603.7		(3.4)	(305.4)	294.9	10.4	305.3
Exercise of stock options	545.3	4.3	25.7					30.0		30.0
Dividends				(493.0)				(493.0)	(12.7)	(505.7)
Change in treasury stock					48.4			48.4		48.4
Stock options					10.3			10.3		10.3
Other (1)				14.3				14.3	0.1	14.4
June 30, 2006	227,164.5	1,817.3	4,094.7	2,524.6	(279.9)	96.4	(104.6)	8,148.5	91.7	8,240.2

\* After application of IAS 32/39

(1) Including 5.0 millions of euros related to the cancellation of gains on own shares sales

The accompanying notes are an integral part of the consolidated financial statements.

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## Notes to the Interim Consolidated Financial Statements

*(All amounts in millions of euros unless otherwise indicated.)*

*The accompanying notes are an integral part of the consolidated financial statements.*

### Note 1 - Accounting standards and basis of preparation

The interim consolidated financial statements have been prepared in compliance with the international accounting standards adopted by the European Union as of June 30, 2006. These include International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

The condensed consolidated financial statements for the six months ended June 30, 2006 have been prepared in accordance with IAS 34 – Interim Financial Reporting. The same accounting and calculation methods were used as for the consolidated financial statements for the year ended December 31, 2005, with the exception of the following standards, amendments and interpretations which did not have an impact on the Group's accounts: IAS 21 – Net Investment in a Foreign Operation, IAS 39 – Financial Guarantees Contracts, IFRS 6 – Exploration for and Evaluation of Mineral Resources, IFRIC 5 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. The interim consolidated financial statements should be read in conjunction with the 2005 annual consolidated financial statements included in the Annual Report filed with the French securities regulator (AMF) under no. D05-0309, except as regards the following differences in accounting treatment between the annual and interim financial statements:

#### ➤ **Seasonal variations**

Seasonal variations can affect the level of sales from one quarter to another. For this reason, the interim financial results are not necessarily indicative of the Group's expected full-year performance.

#### ➤ **Income tax expense**

Current and deferred taxes for interim periods are calculated by applying the estimated average effective tax rate for the current year to each entity's pre-tax profit for the period.

### Note 2 - Changes in the scope of consolidation

#### **2.1 Additions and removals**

The main changes in the scope of consolidation in the six months ended June 30, 2006 were as follows:

##### **Acquisitions**

On January 1, the Group bought out CIH Ltd's interest in the Clipsal Asia joint venture, in accordance with the terms of the agreement between the two partners. Clipsal Asia was previously accounted for by the equity method.

On February 15, the Group acquired the assets of US-based Silicon Power Corporation's Crydom brand solid-state relay business.

On February 28, the Group acquired AEM SA, a Spanish company that designs, manufactures and markets low voltage electrical distribution installation systems and equipment.



On March 27, the Group acquired the entire capital of Citect, an Australian manufacturer of Supervision Control and Data Acquisition (SCADA) solutions and Manufacturing Execution Systems (MES).

On April 30, Schneider Electric acquired OVA G. Bargellini SpA, Italy's leading emergency lighting company with operations in the ultra-terminal segment.

Lastly, on May 31, the Group acquired Merten, a German firm that offers intelligent ultra terminal low voltage solutions for the Residential and Buildings markets.

These companies have been fully consolidated from their respective acquisition dates.

### **Acquisitions in progress**

On May 24, the Group announced that it was acquiring Invensys Building Systems' (IBS) business in North America and Asia. The transaction is subject to anti-trust approval and other customary conditions. The business will be fully consolidated as from the second half of the year and had no impact on the first-half consolidated financial statements.

On July 12, 2006, Schneider Electric announced that it was acquiring Austria-based VA TECH ELIN EBG Elektronik, a company that develops and manufactures high-power speed drive products and solutions. This transaction is also subject to anti-trust approval and other customary conditions. The business will be fully consolidated as from the second half of the year and had no impact on the first-half consolidated financial statements.

### **Other newly consolidated companies**

The SSBEA joint venture set up with Shaanxi Baoguang Group, in which Schneider Electric will hold a 70% interest, should be consolidated in the second half of the year. SSBEA manufactures and markets medium voltage vacuum circuit breakers. The transaction had no impact on the first-half consolidated financial statements.

On June 27, 2006, Schneider Electric announced its intention to participate in the equity conversion process of Shaanxi Baoguang Vacuum Electronic Apparatus Co. Ltd. (SBVE), with the objective of acquiring an interest of around 40% in the company. SBVE is a leading manufacturer of vacuum interrupters. The transaction is subject to the approval of SBVE's capital restructuring plan by shareholders and the competent authorities, as well as a number of conditions precedent. It had no impact on the first-half consolidated financial statements.

### **Divestments**

During first-half 2006, the Group sold Num, a subsidiary specialized in numerical control systems, and Mafelec, a specialty manufacturer of onboard push-button switches. The impact of these divestments on the consolidated financial statements was not material.

### **Other changes**

In the first-half of 2006, the Group acquired a further 9.6% stake in MGE, raising its interest to 94.4%.

## 2.2 Impact of changes in the scope of consolidation

Changes in the scope of consolidation had the following impact on the interim consolidated financial statements:

### ➤ Impact on first-half 2006 revenue and profit

	First-half 2005		First-half 2006	
	Reported	Excluding acquisitions	Contribution from acquisitions	Reported
Revenue	5,399.3	6,153.3	432.9	6,586.2
Operating profit	675.8	887.5	56.7	944.2
<i>Operating margin</i>	12.5%	14.4%	13.1%	14.3%
Profit for the period	413.1	567.3	36.4	603.7

### ➤ Impact on cash

Changes in the scope of consolidation reduced the Group's cash position by a net €559.4 million at June 30, 2006, as described below:

	First-half 2006
Acquisitions	(548.2)
<i>Cash and cash equivalents paid</i>	(584.9)
<i>Cash and cash equivalents acquired</i>	36.7
Disposals	(1.3)
Other operations	(9.9)
<b>Net financial investments</b>	<b>(559.4)</b>

## Note 3 - Goodwill

### 3.1 Breakdown of goodwill

The main items of goodwill are as follows:

	Year of acquisition	CGU (1)	June 30, 2006 Net	Dec. 31, 2005 Net
Square D Company	1991	(A)	1,082.6	1,167.1
Groupe Lexel	1999	EOD	868.0	869.2
TAC/ Andover/ Abacus	2003 to 2005	BA	608.1	637.2
MGE UPS (3)	2000 to 2004	SP	540.4	559.0
BEI Technologies	2005	CST	362.2	390.3
Juno Lighting Inc	2005	NAOD	311.8	335.2
Telemecanique	1988	(A)	462.6	462.6
Clipsal Pacifique	2004	APOD	240.3	261.0
Power Measurement Inc	2005	NAOD	147.5	162.7
Crouzet Automatismes	2000	CST	162.0	162.6
ABS Invensys	2005	BA	111.6	118.8
Positec	2000	EOD	105.9	105.9
Kavlico	2004	CST	84.1	89.6
Merlin Gerin	1992	(A)	87.2	87.2
Digital Electronics	2002	APOD	81.9	84.1
Elau	2004 and 2005	EOD	55.8	55.3
Federal Pioneer	1990	NAOD	58.4	60.1
Infra +	2000 to 2004	EOD	43.1	43.1
Mita Holding	1999	EOD	33.7	41.9
PDL	2001	APOD	30.0	35.1
SE Relays	2005	NAOD	12.9	13.9
Other subsidiaries (2)		APOD / EOD	528.5	136.9
<b>TOTAL</b>			<b>6,018.6</b>	<b>5,878.8</b>

(1) Cash Generating Unit to which goodwill has been allocated.

EOD: European Operating Division; NAOD: North American Operating Division; APOD: Asia-Pacific Operating Division

I/OOD: International Operating Division; SP: Secured Power; BA: Building Automation, CST: Customized Sensors & Technology

(2) Approximately 60 companies

(3) Of which €25 million in relation to the put option granted to minority shareholders.

(A) Square D, Telemecanique and Merlin Gerin goodwill has been allocated on the basis of operating profit by region as of the acquisition date.

	Europe	North America	Asia-Pacific	Rest of the world
Square D	9%	80%	10%	1%
Telemecanique	71%	0%	20%	9%
Merlin Gerin	62%	10%	20%	8%

### 3.2 Changes in goodwill

The main movements in first-half 2006 and in 2005 are summarized in the following table:

	First-half 2006	2005
<b>Net goodwill at opening</b>	<b>5,878.8</b>	<b>4,539.0</b>
Acquisitions	406.8	1,079.5
Disposals	-	-
Impairment	(0.3)	(8.4)
Translation adjustment	(245.9)	301.5
Reclassifications	(20.8)	(32.8)
<b>Net goodwill at period end</b>	<b>6,018.6</b>	<b>5,878.8</b>
<b>Cumulative impairment</b>	<b>(8.7)</b>	<b>(8.4)</b>

#### Acquisitions

Acquisitions for the period mainly concerned Clipsal Asia, Silicon Power Corporation, AEM S.A., OVA G. Bargellini SpA , Citect and Merten.

The valuation of goodwills is not yet finalized. The Group has a twelve months period after the acquisition date to finalize allocation of the acquisition cost.

In accordance with Group policy, as described in the notes to the annual financial statements, goodwill is tested for impairment annually and whenever there is any indication that it may be impaired. There were no indications of impairment of goodwill at June 30, 2006.

## Note 4 - Intangible assets and property, plant and equipment

Changes in intangible assets and property, plant and equipment were as follows:

	Trademarks	Development projects (R&D)	Other intangible assets	Software	Property, plant and equipment	Total
<b>Gross Value</b>						
<b>Dec. 31, 2005</b>	<b>744.4</b>	<b>186.8</b>	<b>310.6</b>	<b>486.7</b>	<b>4,461.2</b>	<b>6,189.7</b>
Acquisitions	1.6		4.5	17.6	169.1	192.9
Internally generated assets		62.0		26.1		88.1
Disposals/scraping			(1.4)	(1.8)	(126.2)	(129.4)
Translation adjustment	(24.5)	(4.5)	(24.6)	(7.8)	(103.9)	(165.2)
Reclassification	(2.7)	10.1	(9.8)	3.4	(4.7)	(3.8)
Changes in scope of consolidation and other	8.9	9.7	6.5	(2.6)	88.3	110.8
<b>June 30, 2006</b>	<b>727.7</b>	<b>264.1</b>	<b>285.8</b>	<b>521.6</b>	<b>4,483.8</b>	<b>6,283.0</b>
<b>Accumulated amortization, depreciation and impairment</b>						
<b>Dec. 31, 2005</b>	<b>(3.7)</b>	<b>(22.0)</b>	<b>(112.9)</b>	<b>(290.8)</b>	<b>(2,860.6)</b>	<b>(3,290.0)</b>
Allocation, depreciation and impairment		(12.3)	(14.7)	(36.7)	(158.9)	(222.5)
Reversals			1.4	2.1	91.1	94.5
Translation adjustment		0.8	4.7	6.1	61.7	73.3
Reclassification	(0.2)	(1.3)	1.0	(1.1)	(2.8)	(4.3)
Changes in scope of consolidation and other	(1.5)	(2.2)	(0.8)	2.3	(37.3)	(39.4)
<b>June 30, 2006</b>	<b>(5.4)</b>	<b>(37.0)</b>	<b>(121.2)</b>	<b>(318.1)</b>	<b>(2,906.7)</b>	<b>(3,388.4)</b>
<b>Net Value</b>						
<b>Dec. 31, 2005</b>	<b>740.7</b>	<b>164.8</b>	<b>197.7</b>	<b>195.9</b>	<b>1,600.6</b>	<b>2,899.7</b>
<b>June 30, 2006</b>	<b>722.3</b>	<b>227.1</b>	<b>164.6</b>	<b>203.6</b>	<b>1,577.1</b>	<b>2,894.7</b>

In accordance with Group policy, as described in the notes to the annual financial statements, trademarks with indefinite useful lives are tested for impairment annually and whenever there is any indication that they may be impaired. There were no indications of impairment of trademarks at June 30, 2006.

Non-current assets held for sale correspond to certain buildings in France that will be sold in the second half of 2006. These assets are recognized on a separate line of the interim balance sheet in the amount of €10.5 million.

## Note 5 - Non-current financial assets

### 5.1 Available-for-sale financial assets

Available-for-sale financial assets, corresponding mainly to investments in non-consolidated companies, break down as follows:

break down as follows:

		June 30, 2006			Dec. 31, 2005
	% interest	Cost	Revaluation/ impairment	Fair value	Fair value
<b>I – Listed available-for-sale financial assets</b>					
AXA	0.40%	82.1	144.7	226.8	240.3
Gold Peak Industries Holding Ltd	10.06%	10.6	(6.6)	4.0	4.6
Euronext	0.10%	8.0	-	8.0	-
Other listed AFS financial assets (1)	-	0.4	-	0.4	38.0
<b>Total listed AFS financial assets</b>		<b>101.1</b>	<b>138.1</b>	<b>239.2</b>	<b>282.9</b>
<b>II – Unlisted available-for-sale financial assets</b>					
Eb@se France (2)	100.00%	20.7	(20.7)	-	-
Comipar	4.15%	16.4	(16.4)	-	-
Easy Plug SAS (2)	50.00%	8.8	(8.8)	-	-
Paramer (3)	99.30%	7.3	(1.5)	5.8	5.8
Simak (3)	98.50%	5.5	(0.5)	5.0	5.0
Legrand	NS	1.7	-	1.7	10.1
Other unlisted AFS financial assets (4)		36.9	(21.3)	15.6	11.6
<b>Total unlisted AFS financial assets</b>		<b>97.3</b>	<b>(69.2)</b>	<b>28.1</b>	<b>32.5</b>
<b>Financial assets available for sale</b>		<b>198.4</b>	<b>68.9</b>	<b>267.3</b>	<b>315.4</b>

(1) Between December 31, 2005 and June 30, 2006, shares in an amount of €37.6 million, corresponding to short-term investments (less than one year), were reclassified under current financial assets.

(2) Removed from the scope of consolidation – in liquidation.

(3) Dormant companies.

(4) Valued at less than €5 million each.

Fair value corresponds to the closing quoted price for investments quoted in an active market and the carrying amount for unlisted investments.

### 5.2 Other non-current financial assets

	June 30, 2006			Dec. 31, 2005
	Cost	Impairment	Net	Net
Vendor loan to buyer of Legrand shares	-	-	-	176.8
Restricted cash on Clipsal acquisition (see note 11)	40.1	-	40.1	41.4
Receivables on investments and loans	2.0	(0.3)	1.7	14.0
Other	62.4	(7.4)	55.0	49.2
<b>Other non-current financial assets</b>	<b>104.5</b>	<b>(7.7)</b>	<b>96.8</b>	<b>281.4</b>

As provided for in the agreement with the consortium of investors that acquired Legrand in 2002, the vendor loan was repaid early during first-half 2006 in connection with Legrand's stock market flotation.

## Note 6 - Equity

### 6.1 Share-based payments

A total of 545,329 Schneider Electric SA shares were issued during first-half 2006 upon exercise of stock options, in an amount of €30 million.

Based on the assumptions described in the notes to the 2005 consolidated financial statements, the amount recorded under "Selling, general and administrative expenses" and as an adjustment to treasury stock for stock option plans set up after November 7, 2002 totaled €10.3 million.

### 6.2 Other reserves

Changes in other reserves were as follows:

	Gains and losses from remeasurement at fair value			Actuarial gains and losses	Total
	Currency instruments	Hedges of metal purchases	Available-for-sale financial assets		
<b>December 31, 2005</b>	2.4	8.5	144.6	(55.7)	<b>99.8</b>
- Unrealized net gains (losses) on available-for-sale financial assets (1)			0.1		0.1
- Net gains (losses) on currency instruments	(14.4)				(14.4)
- Net gains (losses) on hedges of metal purchases		(3.7)			(3.7)
- Actuarial gains (losses) on post-employment benefits				14.6	14.6
<b>June 30, 2006</b>	(12.0)	4.8	144.7	(41.1)	<b>96.4</b>

(1) of which (12.6) millions euros unrealized losses and 12.7 millions euros of deferred tax reversal.

The amounts above are net of tax impact.

The main changes for the period stemmed from differences in actuarial gains and losses (see note 7 – "Pension and other post-employment benefit obligations"). Changes in the fair value of hedging instruments are discussed in note 10 – "Financial instruments".

## Note 7 - Pension and other post-employment benefit obligations

Changes in pension and other post-employment benefit obligations were as follows:

	Pensions and termination benefits	Of which US plans	Other post-employment and long-term benefits	Of which US plans	Provisions for pensions and other post-employment benefits
<b>Dec. 31, 2005</b>	<b>600.0</b>	<b>52.2</b>	<b>593.4</b>	<b>498.1</b>	<b>1,193.5 (*)</b>
Net cost recognized in the statement of income	19.7	(1.4)	13.0	11.0	32.7
Benefits paid	(15.5)	-	-	-	(15.5)
Plan participants' contributions	(10.6)	(4.7)	(13.4)	(13.2)	(24.0)
Actuarial gains and losses recognized in equity	(21.4)	-	-	-	(21.4)
Translation adjustment	(4.5)	(3.6)	(36.0)	(34.3)	(40.5)
Changes in the scope of consolidation	39.2	-	0.3	-	39.5
Other changes	3.8	-	(3.4)	-	0.4
<b>June 30, 2006</b>	<b>610.7</b>	<b>42.5</b>	<b>553.9</b>	<b>461.6</b>	<b>1,164.7 (**)</b>

\* Including €7 million in pension assets recognized under "Other receivables"

\*\* Including €10.4 million in pension assets recognized under "Other receivables"

The net cost recognized in operating profit for first-half 2006 breaks down as follows:

	First-half 2006			First-half 2005		
	Pensions and termination benefits	Other post-employment and long-term benefits	Total	Pensions and termination benefits	Other post-employment and long-term benefits	Total
Service cost	27.0	2.4	29.4	22.8	2.9	25.7
Interest cost (discounting effect)	45.0	12.4	57.4	43.3	12.2	55.5
Expected return on plan assets	(52.0)	-	(52.0)	(46.0)	-	(46.0)
Past service cost	-	(1.8)	(1.8)	1.0	(1.0)	-
Curtailments and settlements	(0.3)	-	(0.3)	(2.9)	-	(2.9)
<b>Net cost recognized in the statement of income</b>	<b>19.7</b>	<b>13.0</b>	<b>32.7</b>	<b>18.2</b>	<b>14.1</b>	<b>32.3</b>

## Note 8 - Provisions

	Economic risks	Customer risks	Product risks	Environmental risks	Restructuring	Other risks	Provisions
<b>Dec. 31, 2005</b>	<b>75.1</b>	<b>67.7</b>	<b>139.9</b>	<b>39.7</b>	<b>93.8</b>	<b>70.5</b>	<b>486.7</b>
<i>Long-term portion</i>	<i>37.0</i>	<i>43.6</i>	<i>34.4</i>	<i>32.6</i>	<i>20.0</i>	<i>42.4</i>	<i>210.0</i>
Additions	31.8	0.3	38.1	0.1	29.9	25.1	125.3
Discounting effect	(0.5)	-	0.2	0.2	0.1	0.9	0.9
Utilizations	-	(1.6)	(31.2)	(0.2)	(30.6)	(6.6)	(70.2)
Reversals of surplus provisions	(10.3)	(2.9)	(5.2)	(0.2)	(0.2)	(2.6)	(21.4)
Translation adjustments	(0.5)	(3.9)	(3.8)	(0.6)	(1.3)	(3.8)	(13.9)
Changes in the scope of consolidation and other	5.3	(3.4)	7.2	-	(5.1)	(15.3)	(11.3)
<b>June 30, 2006</b>	<b>100.9</b>	<b>56.2</b>	<b>145.2</b>	<b>39.0</b>	<b>86.6</b>	<b>68.2</b>	<b>496.1</b>
<i>Long-term portion</i>	<i>36.4</i>	<i>49.6</i>	<i>29.3</i>	<i>30.0</i>	<i>11.1</i>	<i>56.0</i>	<i>212.4</i>

Changes for the period mainly concerned restructuring provisions stemming from the reorganization of the Building Automation business in Europe, for €13 million, and continued industrial reorganization in France, the UK and Italy in the Group's core businesses.

Additions for product risks include the update of the estimations of technical risks on €23 million.



## Note 9 - Net debt

Net debt breaks down as follows:

	June 30, 2006	Dec. 31, 2005
Bonds	(2,691.1)	(2,691.1)
Perpetual bonds	-	-
Bank and other borrowings	(99.1)	(89.9)
Lease liabilities	(16.7)	(18.5)
Employee profit sharing	(5.2)	(6.3)
Short-term portion of long-term debt	27.0	51.1
<b>Non-current financial liabilities</b>	<b>(2,785.1)</b>	<b>(2,754.7)</b>
Commercial paper	(55.1)	-
Accrued interest	(85.1)	(31.4)
Lease liabilities	(1.5)	-
Other short-term borrowings	(105.5)	(90.5)
Short-term bank loans and overdrafts	(71.8)	(79.9)
Short-term portion of long-term debt	(27.0)	(51.1)
<b>Current financial liabilities</b>	<b>(346.1)</b>	<b>(252.9)</b>
<b>Acquisition debts (*)</b>	<b>(37.9)</b>	<b>(137.3)</b>
Marketable securities	197.2	754.8
Money market instruments and short-term deposits	54.6	117.3
Cash	703.5	511.1
<b>Net cash and cash equivalents</b>	<b>955.3</b>	<b>1,383.2</b>
<b>Net debt</b>	<b>(2,213.8)</b>	<b>(1,761.7)</b>

(\*) See Note 11 - Other non current liabilities, net amount including restricted cash on Clipsal acquisition disclosed in Other non-current financial assets (see Note 5.2)

Cash and cash equivalents net of short-term bank loans and overdrafts totaled €883.5 million at June 30, 2006, corresponding to the amount reported in the consolidated cash flow statement.

Marketable securities generally consist of highly liquid instruments traded on regulated markets that are readily convertible into known amounts of cash, such as commercial paper, mutual funds and equivalents.

The Group's 1991 perpetual bonds were redeemed at maturity in March 2006. The bonds were held by a consolidated Special Purpose Entity. Interest on the bonds was swapped for fixed rate at the outset. Their redemption had the effect of reducing net debt by €24 million.

## Note 10 - Financial instruments

The Group uses financial instruments to manage its exposure to fluctuations in interest rates, exchange rates and metal prices.

### 10.1 Carrying amount and notional amount of derivative financial instruments

		Dec. 31, 2005				June 30, 2006	June 30, 2006	
	IFRS designation	Carrying amount	Other financial income and expense (1)	Equity (2)	Cash and cash equivalents	Carrying amount	Notional value	
							Purchase	Sales
<b>Foreign currency</b>								
Futures contracts	CFH*	5.9	6.2	(7.0)	-	5.1	241.3	174.2
Other futures contracts to hedge balance sheet items	Trading	(25.7)	34.7	-	-	9.0	364.8	1,127.1
Options and other hedging instruments	Trading and CFH*	(0.3)	(0.4)	-	-	(0.7)	32.1	34.9
<b>Metal prices</b>								
Futures and options	CFH*	13.1	-	(5.8)	-	7.3	116.6	-
<b>Interest rates</b>								
Swaps on credit lines	Trading	-	-	-	-	-	-	-
Other interest rate swaps	Trading	(20.1)	-	-	20.1	-	N/A	N/A
<b>Hedging instruments</b>		<b>(27.1)</b>	<b>40.5</b>	<b>(12.8)</b>	<b>20.1</b>	<b>20.7</b>	<b>-</b>	<b>-</b>

\* Cash flow hedge

(1) Gains and losses on hedging instruments for the period are offset by changes in the fair value of the underlying, which are also recognized in "Other financial income and expenses".

(2) Reported in equity under "Other reserves".

The market value of financial instruments, which corresponds to their carrying amount, is estimated either internally by discounting future differential cash flows at current market interest rates or by third party banks.

### 10.2 Carrying amount and fair value of financial instruments other than derivatives

	June 30, 2006	
	Notional amount (1)	Market value
Available-for-sale financial assets	267.3	267.3
Other non-current financial assets	96.8	96.8
Marketable securities	197.2	197.2
Bonds	(2,691.1)	(2,642.3)
Other short and long-term debt	(440.1)	(440.1)
<b>Financial instruments excluding derivatives</b>	<b>(2,569.9)</b>	<b>(2,521.1)</b>

(1) The notional amount corresponds to either amortized cost or fair value.

## Note 11 - Other non-current liabilities

	June 30, 2006	Dec. 31, 2005
MGE UPS acquisition debt	26,7	135,5
Clipsal acquisition debt	40,1	41,5
Abacus acquisition debt	1,1	1,8
Other	10,1	-
<b>Other non-current liabilities</b>	<b>78,0</b>	<b>178,8</b>

The decline in MGE UPS acquisition debt reflects a €38 million earn-out payment, a €25 million deferred payment, and a €46 million reduction in debt related to the put option granted to minority shareholders following the buyback of 9,6% of the shares during the period.

The agreement for the acquisition of Clipsal includes a seller's warranty providing for part of the acquisition price to be withheld until December 2007. This amount has been placed in escrow (see note 5.2).

## Note 12 - Segment information

The Group is divided into four operating divisions, corresponding to geographical segments. Performance assessments and management decisions are notably based on operating profit (earnings before interest and tax).

Geographical segment information includes the contribution from the Growth Platforms (building automation and security, secured power and sensors for repetitive machines). Details are provided in the Management Report for first-half 2006.

Revenue	First-half 2006	First-half 2005
Europe	3,067	2,725
North America	1,818	1,333
Asia-Pacific	1,167	917
Rest of the World	534	424
<b>Total</b>	<b>6,586</b>	<b>5,399</b>

Operating margin	First-half 2006	First-half 2005
Europe	14.9%	12.7%
North America	14.0%	12.9%
Asia-Pacific	12.5%	11.5%
Rest of the World	16.3%	12.3%
<b>Total</b>	<b>14.3%</b>	<b>12.5%</b>

## Note 13 - Other operating income and expenses

Other operating income and expenses break down as follows:

	First-half 2006	First-half 2005
Restructuring	(69.9)	(46.6)
Gains or losses on the disposal of current assets	0.5	4.8
Impairment of goodwill	(0.3)	(9.9)
Other	0.7	12.1
<b>Other operating income and expenses</b>	<b>(69.0)</b>	<b>(39.6)</b>

Other operating income and expenses include €69 million in non-recurring expenses stemming from asset impairment (€29 million) and restructuring programs (€41 million).

## Note 14 - Finance costs and other financial income and expense, net

Interest income and expense consist solely of income and expense relating to financial assets (including cash and cash equivalents) and debt.

	First-half 2006	First-half 2005
Interest income	35.7	20.9
Interest expense	(100.7)	(68.5)
Income and expense from short term deposits	11.1	4.1
<b>Cost of net debt</b>	<b>(53.9)</b>	<b>(43.5)</b>
Dividend income	9.1	6.8
Exchange gain and losses, net	(6.6)	(4.0)
Impairment losses on financial assets, net	(0.6)	(2.2)
Discounting adjustments of non current assets and liabilities	0.1	(6.5)
Net gain/(losses) on disposal of long term investments	-	-
Fair value adjustments	0.2	3.0
Other financial expense, net	(6.6)	(4.4)
<b>Finance costs and other financial income and expense, net</b>	<b>(58.3)</b>	<b>(50.8)</b>

Losses on financial assets include capital losses on the disposal of securities.

## Note 15 - Income tax expense

Whenever possible, Group entities file consolidated tax returns. Schneider Electric SA files a consolidated tax return with its French subsidiaries held directly or indirectly through Schneider Electric Industries SAS.

### 15.1 Analysis of income tax expense for the period

	First-half 2006	First-half 2005
<b>Current taxes</b>		
France	(25.0)	(3.3)
International	(194.2)	(161.8)
<b>Total</b>	<b>(219.2)</b>	<b>(165.1)</b>
<b>Deferred taxes</b>		
France	(53.7)	(45.6)
International	9.0	15.5
<b>Total</b>	<b>(44.7)</b>	<b>(30.1)</b>
<b>Income tax</b>	<b>(263.9)</b>	<b>(195.2)</b>

### 15.2 Tax proof

	First-half 2006	First-half 2005
<b>Profit attributable to equity holders of the parent</b>	<b>603.7</b>	<b>413.1</b>
Income tax (expense)/benefit	(263.9)	(195.2)
Goodwill impairment	(0.3)	(9.9)
Minority interests	(18.3)	(14.2)
Share of profit of associates	-	(2.5)
<b>Profit before tax and goodwill impairment</b>	<b>886.2</b>	<b>634.9</b>
Statutory tax rate	34.43%	34.93%
<b>Income tax expense calculated at the statutory rate</b>	<b>(305.1)</b>	<b>(221.7)</b>
<b>Reconciling items:</b>		
Difference between French and foreign tax rates	23.3	18.9
Tax credits and other tax reductions	16.6	13.2
Impact of tax losses	1.6	1.1
Additional tax payments	(6.3)	(6.4)
Other permanent differences	6.0	(0.3)
Income tax (expense)/benefit	(263.9)	(195.2)
<b>Effective tax rate</b>	<b>29.8%</b>	<b>30.7%</b>

## Note 16 - Commitments and contingent liabilities

### 16.1 Guarantees given and received

There were no material changes in guarantees given and received in first-half 2006. They amounted to €351.8 million and €38.6 million respectively at June 30, 2006 versus €402 million and €35.4 million at December 31, 2005.

### 16.2 Purchase commitments

- **Equity investments**

Commitments to purchase equity investments correspond to put options given to minority shareholders in consolidated companies or relate to earn-out payments. At December 31, 2005, these commitments primarily concerned Clipsal Asia. This company was acquired during first-half 2006 and purchase commitments at June 30, 2006 were therefore not material.

- **Information technology services**

In 2004, the Group signed an agreement with Capgemini to outsource its European IT functions and deploy shared management applications using SAP. The agreement is currently being implemented in the subsidiaries. Payments to Capgemini replace the cost of the IT function, which was previously managed internally. The 2006 expense related to this outsourcing agreement contractually amounted to €127 million, including €63.5 million for the first half. In March 2006, the duration of the reciprocal commitments between Capgemini and Schneider was extended from ten to twelve years.

### 16.3 Contingent liabilities

Management is confident that balance sheet provisions for known disputes in which the Group is involved are sufficient to ensure that these disputes do not have a material impact on its financial position or profit. This is notably the case for the potential consequences of a current dispute in Belgium involving former senior executives and managers of the Group.

The loan agreements related to the Group's long-term debt do not include any rating triggers.

## Note 17 - Subsequent events

- **Acquisition**

On July 12, 2006, the Group announced that was acquiring Austria-based VA TECH ELIN EBG Elektronik, a manufacturer of high-power speed drives. The acquisition, which is subject to approval by anti-trust authorities, should be finalized and fully consolidated in the second half of the year.

- **Bond issue**

As part of its Euro Medium Term Note (EMTN) program, the Group issued €1,000 million worth of bonds on July 17, 2006. The issue comprises a €500 million five-year tranche at Euribor + 0.20% and another €500 million 7.5-year tranche at 4.59%. These bonds are traded on the Luxembourg stock exchange.

# Business Review First-Half 2006

## Highlights of First-Half 2006

### Changes in the scope of consolidation

#### Divestments

On January 31, 2006, the Group announced the sale of its Num numerical control subsidiary to Verdosio.

On February 27, 2006, the Group announced the sale of Mafelec, a specialty manufacturer of onboard push-button switches, to GET via an MBO.

#### Acquisitions

*The dates given below correspond to the dates on which the Group obtained control of the acquired companies.*

On January 1, 2006, the Group bought out CIH Ltd's interest in the Clipsal Asia joint venture, in accordance with the terms of the agreement between the two partners. Clipsal Asia was previously accounted for by the equity method.

On February 15, 2006, the Group acquired the assets of US-based Silicon Power Corporation's Crydom brand solid-state relay business.

On February 28, 2006, the Group acquired AEM SA, a Spanish company that designs, manufactures and markets low voltage electrical distribution installation systems and equipment.

On March 27, 2006, the Group acquired the entire capital of Citect, an Australian manufacturer of Supervision Control and Data Acquisition (SCADA) solutions and Manufacturing Execution Systems (MES).

On April 30, 2006, Schneider Electric acquired OVA G. Bargellini SpA, Italy's leading emergency lighting company with operations in the ultra-terminal segment.

Lastly, on May 31, 2006 the Group acquired Merten, a German firm that offers intelligent ultra terminal low voltage solutions for the Residential and Buildings markets.

These companies have been fully consolidated from their respective acquisition dates.

The following companies, acquired in 2005, are presented as a change in the scope of consolidation in first-half 2006:

- Power Measurement Inc, consolidated as from April 14, 2005.
- ELAU, fully consolidated as from June 1, 2005.
- ABS EMEA, consolidated as from August 1, 2005.
- Juno Electric Inc, consolidated as from August 24, 2005.
- BEI Technologie Inc, consolidated as from October 1, 2005.

#### Other changes in the scope of consolidation

On January 1, 2006, the Group acquired a further 9.6% stake in MGE, raising its interest to 94.4%.

Together, these changes in scope of consolidation added €432.9 million, or 8%, to revenue and €57 million, or 8.4%, to operating profit for the period.

The average operating margin of newly consolidated units stood at 13.1% in the first half. Before amortization of intangible assets recognized on acquisition, the average operating margin came to 14.1%.

#### **Acquisitions in progress**

On May 24, the Group announced that it was acquiring Invensys Building Systems (IBS) in North America and Asia. Following on the acquisition of Invensys' Advanced Building Systems business (ABS EMEA), finalized in July 2005, this transaction extends Schneider Electric's current positions in Building Automation. The acquisition, which is subject to approval by anti-trust authorities, should be finalized and fully consolidated in the second half of the year.

On July 12, 2006, Schneider Electric announced that it was acquiring Austria-based VA TECH ELIN EBG Elektronik, a company that develops and manufactures high-power speed drive products and solutions. This transaction is also subject to anti-trust approval and other customary conditions. The business will be fully consolidated as from the second half of the year

#### **Exchange rate fluctuations**

Fluctuations in the euro exchange rate lifted revenue by 2.7%, or €131 million. The positive impact on operating profit came to €17 million, or 2.5%. The euro's average parity to the US dollar and Chinese yuan was the main factor in the currency effect:

	USD	CNY
Average rate, first-half 2005	1.288	10.658
Average rate, first-half 2006	1.227	9.863



## Income Statement

*Unless otherwise specified, all period-on-period changes have been calculated on a like-for-like basis (i.e. based on a comparable scope of consolidation and at constant exchange rates).*

### Revenue

Consolidated revenue for the six months ended June 30, 2006 amounted to €6,586 million, an increase of 22.0% compared with reported revenue for the same period of 2005. The like-for-like increase was 11.3%.

Revenue from the **European Operating Division** rose 8.6% to €3,067 million. Growth was driven by the performance in Eastern Europe (up 22.4%), Northern Europe (up 11.6%) and Spain (up 10.5% thanks to its vibrant infrastructure and buildings markets).

Revenue from the **North American Operating Division** increased 10.1% to €1,818 million. The Group's historical businesses in the US recorded growth of 13.7%, while acquisitions provided additional revenue of €266 million during the period.

Revenue from the **Asia-Pacific Operating Division** climbed 16.2% to €1,167 million. India reported a growth rate of 63.4%. The increase in China came to 13%, four points higher than in the year-earlier period.

Revenue from the **Rest of the World** amounted to €534 million, up 21.2% from first-half 2005. This reflects excellent figures from the Middle East (up 29.2%), Africa (up 21.3%) and South America (up 20.8%), stemming primarily from the development of equipment and projects business in these regions.

### Operating profit

First-half operating profit totaled €944 million versus €676 million in the year-earlier period, an increase of 39.6% on a reported basis and 27.4% like-for-like. Consolidated operating margin (representing operating profit expressed as a percentage of revenue) widened to 14.3% from 12.5%.

The €87 million increase in raw material costs during the period was partially passed on in higher selling prices and the rest was offset by productivity gains in the Group's manufacturing operations.

Operating profit includes €70 million in non-recurring expenses related to asset impairment (€29 million) and restructuring programs (€41 million). At June 30, 2005, non-recurring restructuring expenses totaled €57 million.

Restructuring expenses in first-half 2006 primarily stemmed from the reorganization of the Building Automation business in Europe, for €13 million, and continued industrial reorganization in the Group's core businesses in France, the UK and Italy, for €35 million. They also included impairment losses on internally-developed software, for €7 million.

At June 30, 2006, capitalization of development costs had a positive net impact on operating profit of €50 million, virtually the same as in first-half 2005 (€51 million).

Operating margin in the **European Operating Division** widened by 2.1 points from the year-earlier period to 14.9%.

In the **North American Operating Division**, operating margin rose 1.1 point to 14.0%.

The **Asia-Pacific Operating Division** achieved a 1.0-point gain, with an operating margin of 12.5%. In the **Rest of the World**, operating margin grew 4 points to 16.3%.

**Finance costs and other financial income and expense, net**

Finance costs and other financial income and expense, net totaled €58 million versus €51 million in first-half 2005. This mainly reflects the increase in average net debt to €1,900 million in first-half 2006 from €845 million the year before, as well as changes in interest rates and in the type of financing used.

Changes in the fair value of financial instruments did not have an impact on this item in first-half 2006.

**Income tax**

The effective tax rate declined to 29.8% from 30.7% at June 30, 2005.

**Share of profit/(losses) of associates**

In first-half 2006, this item primarily comprised the financial results of the Clipsal Asia sub-group, which has been fully consolidated since January 1, 2006.

**Minority interests**

Minority interests mainly correspond to the share of income attributable to minority shareholders of Clipsal Asia, MGE-UPS, Feller AG, EPS Ltd, and a number of Chinese companies.

**Profit attributable to equity holders of the parent**

Profit attributable to equity holders of the parent grew 46.2% to €604 million during the period.

**Earnings per share**

Earnings per share rose 44.7% from the year-earlier period to €2.75. The gain was slightly lower than for profit attributable to equity holders of the parent, as the exercise of stock options increased the average weighted number of shares used in calculating EPS.

## **Balance sheet**

Total assets stood at €16,742 million at June 30, 2006, versus €16,615 million at December 31, 2005.

### **Non-current assets**

Non-current assets amounted to €10,056 million and represented 60% of total assets, compared with 62% at December 31, 2005.

#### ***Goodwill***

Net goodwill amounted to €6,019 million. The €140 million increase over the period primarily reflects €407 million in goodwill recognized on acquisitions (notably Citect, OVA and Merten) and a negative €246 million translation adjustment.

#### ***Intangible assets and property, plant and equipment***

Trademarks declined by €19 million over the period to €722 million, due mainly to the impact of exchange rates on trademarks recognized in the United States.

Net capitalized development expenses totaled €227 million versus €165 million at December 31, 2005. Substantially all of the increase is attributable to the capitalization of €62 million in expenses over the period, less amortization of €12 million, offset by the €12 million impact of changes in the scope of consolidation and exchange rates.

Other intangible assets declined to €368 million from €394 million and consisted mainly of software and patents, as well as ongoing developments to deploy the global SAP system. The change reflects the capitalization of SAP system development costs, in an amount of €26 million, and the net impact of additions and disposals and amortization for a negative €51 million.

Property, plant and equipment represented €1,577 million. The €24 million decrease over the period corresponds to translation adjustments, for a negative €42 million, changes in the scope of consolidation, for €51 million, and additions and disposals net of depreciation, for a negative €33 million.

#### ***Investments in associates***

Investments in associates declined by €42 million to €6 million following the full consolidation of the Clipsal Asia sub-group as from January 1, 2006.

### ***Non-current financial assets***

Non-current financial assets, primarily equity instruments quoted in an active market and loans and receivables related to investments, totaled €364 million, a decrease of €233 million from December 31, 2005.

This reflects fair-value adjustments during the period to listed investments classified as available-for-sale assets (primarily shares in AXA), for a negative €13 million. The contra entry was posted to equity.

Other non-current financial assets declined to €97 million from €281 million following the payment of the €177 million balance on the vendor loan granted to the buyer of Legrand shares.

### **Cash and net debt**

	June 30, 2006	June 30, 2005
Net debt at January 1	(1,761.7)	(666.5)
Total cash and cash equivalents	1,383.2	975.8
Total current and non-current financial liabilities	(3,144.9)	(1,642.3)
Operating cash flows before changes in operating assets and liabilities	924.0	628.7
Capital expenditure, net	(249.0)	(223.8)
Changes in operating working capital	(386.0)	(229.5)
Changes in non-operating working capital	1.0	(47.0)
Free cash-flow	290.0	128.4
Acquisitions (purchase of financial investments, net)	(474.0)	(214.7)
Dividends	(505.7)	(412.3)
Share buy back	53.4	(102.3)
Other	184.2	(63.7)
Change in net debt	(452.1)	(664.6)
Net debt at June 30	(2,213.8)	(1,331.1)
Total cash and cash equivalents	955.3	773.2
Total current and non-current financial liabilities	(3,169.1)	(2,104.3)

Net cash provided by operating activities before changes in operating assets and liabilities totaled €924 million, rising to 14.0% of revenue from 11.7% in first-half 2005.

Changes in operating working capital represented a negative €386 million, as the relative level of inventories and accounts receivable decreased against a backdrop of strong revenue growth. Changes in non-operating working capital include settlement of a €25 million receivable from the French Treasury related to the elimination of the *précompte* equalization tax and an increase in taxes and payroll expenses related to operations.

Net cash provided by operating activities totaled €538 million, up 52.8% from €352 million in first-half 2005.

Capital expenditure, which includes capitalized development projects, represented an outlay of €249 million compared with €224 million in first-half 2005. These investments edged back to 3.8% of revenue from 4.1% in the year-earlier period.

Over the period, acquisitions used a total of €474 million versus €215 million in first-half 2005.

Dividends paid totaled €506 million, of which €13 million to minority interests.

The sale of Schneider Electric shares during the period brought in €53 million in cash. In the year-earlier period, the Group bought back Company shares in a net amount of €102 million.

Other items with a material impact on cash include the repayment of the vendor loan set up when the Group sold its Legrand shares in 2002, for €177 million, and the proceeds from shares issued on the exercise of stock options, for €30 million.

At June 30, 2006, net debt totaled €2,214 million or 27.2% of equity attributable to equity holders of the parent. This represents an increase of €452 million.

The Group had €703 million in cash and €252 million in marketable securities, comprising short-term instruments such as commercial paper, monetary mutual funds and equivalents.

Total current and non-current financial liabilities amounted to €3,169 million. Of this, bonds represented €2,692 million, including two tranches of a €1.5 billion issue in August 2005 as part of the Group's EMTN program. Financial liabilities also include debt on acquisitions (Note 9).

Current financial liabilities totaled €346 million at June 30, 2006 and primarily included bank overdrafts and accrued interest.

### **Equity**

Equity attributable to equity holders of the parent came to €8,149 million, or 48.7% of the balance sheet total. The €95 million decrease over the period reflects the following:

- Profit for the period of €604 million.
- A negative €305 million change in the cumulative translation adjustment.
- Payment of the 2005 dividend, in an amount of €493 million.
- The €78 million net impact of share buybacks and shares issued on the exercise of stock options.

### **Provisions**

Short and long-term provisions totaled €1,671 million, or 10.0% of the balance sheet total. Of this, €284 million covered items that are expected to be paid out in less than one year.

Provisions for pensions and other post-employment benefits came to €1,175 million, or 7.0% of the balance sheet total. The €25 million decrease over the period reflects the translation adjustment, for €41 million, changes in actuarial assumptions, for €21 million, and additions to the scope of consolidation, for €40 million.

Provisions for contingencies came to €496 million, of which €283 million were listed under current liabilities. These provisions cover product risks (warranties, disputes over identified defective products), for €145 million, economic risks (tax risks, financial risks generally corresponding to seller's guarantees), for €101 million, customer risks (customer disputes and losses on long-term contracts), for €56 million, and restructuring, for €87 million. Additions to provisions for restructuring amounted to €30 million in first-half 2006.

### **Other non-current liabilities**

Other non-current liabilities, comprising acquisition debt, totaled €78 million. This included €40 million for Clipsal (to be paid in 2007) and €27 million for MGE UPS. The decrease from December 31, 2005 reflects the settlement of part of the commitment to buy out minority shareholders of MGE UPS, in an amount of €107 million.

### **Deferred taxes**

Deferred tax assets and liabilities, net represented a liability of €481 million, down €53 million from December 31, 2005. The change over the period stems mainly from the use of €102 million in tax loss carryforwards (including €68 million set off against taxable profit in France for first-half 2006), and the reversal of a €59 million deferred tax liability recorded for perpetual bonds, following the redemption of the bonds in March 2006.